

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 98-598

January 31, 2000

PUBLIC UTILITIES COMMISSION  
Investigation of Stranded Costs, Transmission  
And Distribution Utility Revenue Requirements  
And Rate Design of Houlton Water Company

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

---

**I. SUMMARY**

By way of this order we approve transmission and distribution (T&D) utility rates for Houlton Water Company (HWC) effective March 1, 2000, the beginning of retail access to generation services in Maine. Under the rate schedules proposed by HWC, it will recover \$1,748,911 in annual revenue requirements. HWC has filed tariffs that contain identical customer charge and per kWh delivery service rate components for each customer, differentiated only by the voltage level at which the customer takes service. The effective average T&D rate per kWh for all distribution level customers will be 2.248¢/kWh, with residential rates being 2.501¢/kWh and medium and large commercial rates being 2.054¢/kWh. The effective average T&D rate per kWh for all transmission level customers will be 1.043¢/kWh.

**II. PROCEDURAL BACKGROUND**

The provisions of the Electric Restructuring Act require the Commission to conduct an adjudicatory proceeding to establish transmission and distribution utility revenue requirements, and to design stranded costs and rates for each consumer-owned electric utility (COU), prior to the start of retail access in March of 2000. 35-A M.R.S.A. §§ 3508(8), 3509(2).

On August 10, 1998, the Commission issued a Notice of Investigation which initiated a stranded costs, transmission and distribution utility revenue requirements and rate design proceeding for HWC. That notice provided interested persons with an opportunity to intervene in this matter. The Office of Public Advocate (OPA) filed a petition to intervene which was granted without objection.

On September 4, 1998, an initial case conference was held to determine the scope and processing of the case. At this conference, it was agreed that the parties would attempt to resolve the case through an informal process rather than through formal litigation. In making this determination, the parties recognized that HWC, as a COU, operates under different legal and operational conditions than do the

investor-owned utilities (IOUs). Its customers are its owners, which gives its customers more control over its decisions and actions than those of IOUs'. In addition, COUs, under 35-A M.R.S.A. § 3502, can change rates at their discretion with limited Commission oversight. Finally, instead of earning an overall rate of return on plant investment, the COUs maintain an operating margin. This margin is limited to a maximum of 25% of revenues by 35-A M.R.S.A. § 3503(C)(3) and is reflected when calculating revenue requirements. Therefore, when we reduce one component of revenue requirements, HWC may offset the reduction by increasing its reserve requirements to meet a reasonable margin allowance.

HWC's initial filing was made on November 10, 1998. During the past year, a series of technical conferences were held among the Advisory Staff and the parties to discuss the filings and further develop the case. A general consensus on principles, final rates and tariff language was reached and on October 28, 1999, HWC submitted a Chapter 120 filing revised December 22, 1999, reflecting these agreements.

### III. DISCUSSION

#### A. Revenue Requirements

HWC based its revenue requirements on actual 1997 operating information as reported in its annual report filed with the Commission. It did not initially make any adjustments to this data. The parties recommended limited changes to the revenue requirements to remove one-time costs and adjust revenues and expense that were unlikely to occur in future years. HWC, in its final tariffs and supporting workpapers, reflected the changes agreed to by the parties.

We have reviewed HWC's revised revenue requirement filing and are satisfied that this level of revenue is required for HWC to perform its public utility service and to attract necessary capital on just and reasonable terms. We approve rates intended to collect revenue requirements of \$1,748,911.

#### B. Rate Design

In its filing, HWC proposes rate design changes to both class allocations and rate structures to bring its T&D rates in line with its costs of service. It is worth noting that HWC's last rate design and/or cost allocation filings were done prior to 1983. In this filing, HWC's proposed cost-based T&D rates would increase the effective average total rate (including both T&D and power supply) for the residential class by 8% while decreasing the rate for the large power class by 5%. HWC eliminates the demand charge for all customers, and proposes to charge identical rates to all customers, differentiated only by delivery voltage level. Customers taking service at or above 34.5 kV are considered "transmission level;" those taking service below 34.5 kV are considered "distribution level."<sup>1</sup>

---

<sup>1</sup> Area lights and street lights are not included in this proposal.

In *Maine Public Utilities Commission, Investigation of Central Maine Power Company's Stranded Costs, Transmission and Distribution Utility Revenue Requirements and Rate Design*, Docket No. 97-580, Order at 116 (March 19, 1999), the Commission concluded that a smooth and successful transition to retail access is more likely to occur if T&D rate design undergoes only minimal changes and causes no customers to experience bill increases as a result (the "no losers" principle). HWC's proposed revisions to class allocations and to rate structures will necessarily result in both decreases and increases to the bills of individual customers, thereby violating the "no-losers" principle. To mitigate bill impacts, two steps were undertaken. First, HWC placed a cap of 5% on the increase to each rate group's average total rate increase (including both T&D and power supply). Because some average rate increases exceeded 5%, HWC proposes to phase-in the rate design changes over a 2-year period. While HWC will phase-in its revisions to rate design, the full change to Company revenue requirements will be carried out on March 1, 2000.

Second, HWC calculated the bill impacts of its phased-in rates on customers of varying sizes in each rate class. In some instances, a small number of customers continue to have significant increases.<sup>2</sup>

As discussed above, we desire that customers experience a smooth transition to retail access. However, we recognize COUs' unique legal and operational conditions, and we accept HWC's assertion that the advantages of bringing rates into balance with costs will offset negative impacts caused by bill increases. Therefore, we will deviate from our stated "no-losers" principle and allow HWC to carry out its proposed rate re-design when developing its T&D rates.

#### C. Transmission/Generation Clauses

HWC has included in its rate schedules an automatic adjustment clause to reflect changes in the cost of transmission. This clause is necessary because generation providers wheel power to HWC's territory through IOUs contiguous to HWC. HWC has agreed to assume the IOU's wheeling charge so that the provider need not charge its customers a premium to cover this additional transportation cost. The charge under this tariff will change each month to reflect actual costs charged to HWC in the previous month.

HWC currently adjusts its rates monthly to reflect fluctuating costs of purchased power. Therefore, a transmission charge that changes monthly will not be a new pricing feature to HWC's customers.

We recognize that this transmission wheeling charge is an exogenous cost to HWC. We accept HWC's representation that its customers are accustomed to monthly rate fluctuations, and we accept HWC's treatment of this charge.

---

<sup>2</sup> For example, certain street light bills would increase by 10% or more.

#### IV. CONCLUSIONS

We have reviewed HWC's proposed rate schedules filed on December 22, 1999, and conclude the rates contained therein are just and reasonable and will provide a level of revenue necessary for HWC to perform its public utility service and to attract necessary capital on just and reasonable terms.

Accordingly, we

#### ORDER

That HWC's Rate 1, pages 1 and 2, 10<sup>th</sup> Revision; Rate 2, pages 1 and 2, 9<sup>th</sup> Revision; Rate 8, pages 1 and 2, 9<sup>th</sup> Revision; Rate 9, pages 1 and 2, 10<sup>th</sup> Revision; Rate 10, pages 1, 2 and 3, 9<sup>th</sup> Revision; Rate 12, pages 1, 2 and 3, 9<sup>th</sup> Revision; Rate 13, Original; Rate 14, Original; Rate 15, Original, filed on October 28, 1999 and December 22, 1999, effective March 1, 2000, copies of which are attached hereto, are hereby approved to take effect for service provided on or after March 1, 2000.

Dated at Augusta, Maine, this 31st day of January, 2000.

BY ORDER OF THE COMMISSION

---

Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR:      Welch  
   Nugent  
   Diamond